

**Bear Lake School District**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2008

## CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	4
STATEMENT OF ACTIVITIES.....	5
BALANCE SHEET - GOVERNMENTAL FUNDS.....	6
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	7
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES .....	8
STATEMENT OF FIDUCIARY NET ASSETS.....	9
NOTES TO FINANCIAL STATEMENTS.....	10
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND .....	23
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
BALANCE SHEET.....	25
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES.....	26
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	27

# MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Bear Lake Schools (the “District”) annual financial report presents a discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2008. It is to be read in conjunction with the District’s financial statements, which immediately follows the Report of Independent Certified Public Accountants on these financial statements.

## FINANCIAL HIGHLIGHTS

- The District’s financial status took a positive turn due to an increase in the foundation grant along with tighter controls on expenditures.
- Foundation grant of \$7,204 per pupil.

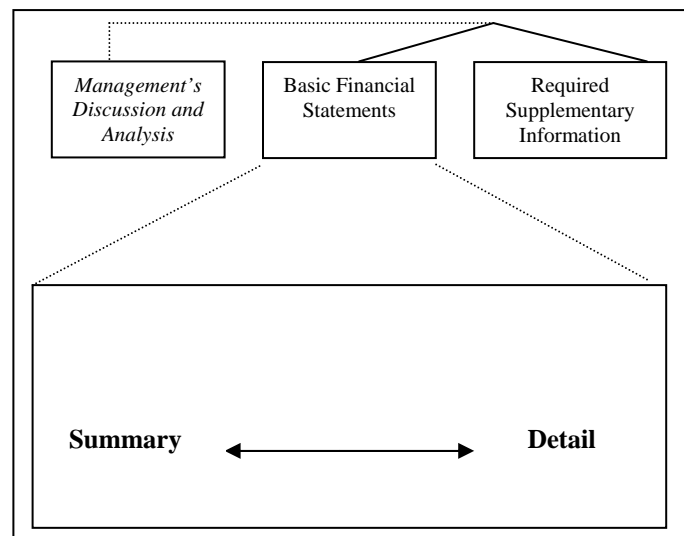
## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Bear Lake Schools Annual Financial Report**



<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as general education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and capital maintenance measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as general education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (like athletics).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's *combined* net assets were more on June 30, 2008, than they were the year before – increasing by \$69,678.

The District's improving financial position is the product of several independent factors, including a constant student count from the prior year, the State's per-pupil funding increase for the year and tighter controls on expenditures.

Summary of Net Assets (provides a perspective of the District as a whole).

<b>Table A-3</b>		
	2007	2008
Current and other assets	\$ 1,596,277	\$ 1,559,806
Capital assets	5,881,526	5,748,861
Total assets	7,477,803	7,308,667
Long-term debt outstanding	4,598,747	4,441,888
Other liabilities	1,168,758	1,086,803
Total liabilities	5,767,505	5,528,691
Net assets		
Invested in property and equipment, net of related debt	1,149,354	1,158,335
Restricted	111,733	39,780
Unrestricted	449,211	581,861
Total net assets	\$ 1,710,298	\$ 1,779,976

Statement of Activities (provides the results of operations of the District as a whole).

<b>Table A-4</b>		
	2007	2008
Revenues		
Property Taxes, levied for general purposes	\$ 720,515	\$ 797,719
Property Taxes, levied for debt services	393,294	352,689
State aid not restricted to specific purposes	2,011,084	1,960,956
Interest and other	195,586	53,475
Charges for services	108,807	104,660
Capital grants/contributions	9,000	15,138
Operating grants/contributions	438,005	389,649
Total revenues	3,876,291	3,674,286
Expenses		
Instruction	2,040,323	1,922,318
Support services	1,051,584	979,718
Community services	82,747	85,989
Athletics	95,435	90,931
Other	18,873	48,781
Interest on long-term debt	240,822	234,274
Depreciation-unallocated	248,422	242,597
Total expenses	3,778,206	3,604,608
Increase in Net Assets	98,085	69,678
Net Assets - Beginning of year	1,612,213	1,710,298
Net Assets - End of year	\$ 1,710,298	\$ 1,779,976

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As The District completed the year; its governmental funds reported *combined* fund balances of \$722,396, an increase of \$44,976 above last year's ending fund balances of \$677,420. The majority of the increase is reflected in the General Fund.

### General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are as follows:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the District's final budget for the general fund anticipated that revenues and expenditures would reflect a decrease of \$45,494, the actual results for the year show an increase of \$118,543.
- Actual revenues were \$3,298,715 or \$7,023 lower than expected. This was largely due to a decrease in federal revenue.
- The actual expenditures were \$3,180,685, or \$104,159 below budget, due primarily to controlling and monitoring expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Depreciable assets for the 2007-2008 school year totaled \$9,197,166. During the year, the District invested an additional \$109,932 in building improvements, equipment and a new bus. A summary of capital assets follows:

<b>Table A-5</b>				
<b>The District's Capital Assets</b>				
	2007	Additions	Retirement	2008
Building and building improvements	\$ 8,122,979	\$ -	\$ -	8,122,979
Buses and other vehicles	446,413	71,669	(38,000)	480,082
Furniture and equipment	555,842	38,263	36,220	594,105
Total depreciable assets	9,125,234	109,932	(1,780)	9,197,166
Less accumulated depreciation	(3,303,492)	(242,597)	38,000	(3,508,089)
Land	59,784	-	-	59,784
Net governmental capital assets	<u>\$ 5,881,526</u>	<u>\$ (132,665)</u>	<u>\$ 36,220</u>	<u>\$ 5,748,861</u>

## Long-term Debt

At year-end the District had \$4,695,000 in general obligation bonds and \$65,783 in accumulated leave liability. (More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.) During the year the District entered into a capital lease agreement for a new bus.

<b>Table A-6</b>			
<b>The District's Outstanding Long-Term Debt</b>			
	<u>2007</u>	<u>Net Additions/ (Payments)</u>	<u>2008</u>
General obligation debts			
(financed with property taxes)	\$ 4,885,000	\$ (190,000)	\$ 4,695,000
Notes payable	27,701	(27,701)	-
Capital lease	52,385	63,683	116,068
Unamortized refinancing costs	(232,914)	12,372	(220,542)
Accumulated Sick & Vacation	79,890	(14,107)	65,783
Total	<u>\$ 4,812,062</u>	<u>\$ (155,753)</u>	<u>\$ 4,656,309</u>

## FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- The 2008-2009 foundation allowance is estimated to increase by \$112/pupil to \$7,316/pupil. Student enrollment is estimated to decrease by approximately 20 students.
- The end of fiscal year 2008 marked the expiration of the contract for Bear Lake School's bargaining unit. The contract remained unsettled for the 2008-2009 school year as of June 30, 2008.
- Health insurance costs continue to be unexpected from year to year. For the 2008-2009 fiscal year the premiums increased 3%.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Bear Lake School District's Business Office at 1710 Merkey Road, Manistee, MI, 49660.





Business and Financial Advisors  
*Our clients' success – our business*

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Bear Lake School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the ***Bear Lake School District*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Bear Lake School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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The management's discussion and analysis on pages i - vi and budgetary comparison information on page 23, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dennis, Gartland & Niergarth*

September 26, 2008

# Bear Lake School District

## STATEMENT OF NET ASSETS

June 30, 2008

### Governmental Activities

#### **ASSETS**

##### Current assets

Cash and equivalents	\$ 1,143,621
Due from other governments	411,111
Prepaid expenses	<u>5,074</u>

Total current assets 1,559,806

##### Non-current assets

Capital assets, net of accumulated depreciation	<u>5,748,861</u>
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Total assets \$ 7,308,667

#### **LIABILITIES AND NET ASSETS**

##### **LIABILITIES**

##### Current liabilities

Accounts payable	\$ 50,440
Salaries payable and related expenses	233,108
Accrued interest	34,972
State aid anticipation note payable	500,000
Deferred revenue	43,271
Due to other governments	10,591
Current portion of long-term liabilities	<u>214,421</u>

Total current liabilities 1,086,803

Non-current portion of long-term obligations 4,441,888

Total liabilities 5,528,691

##### **NET ASSETS**

Invested in capital assets, net of related debt	1,158,335
Restricted for	
Capital projects	5,218
Debt Service	34,562
Unrestricted	<u>581,861</u>

Total net assets 1,779,976

Total liabilities and net assets \$ 7,308,667

The accompanying notes are an integral part of these financial statements.

# Bear Lake School District

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Program	Program Revenues				Net (Expense)/ Revenue and Changes in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 1,922,318	\$ -	\$ 388,992	\$ 15,138	\$ (1,518,188)
Supporting Services	979,718	9,660	657	-	(969,401)
Community Services	85,989	79,293	-	-	(6,696)
Athletics	90,931	15,707	-	-	(75,224)
Other	48,781	-	-	-	(48,781)
Interest on long-term debt	234,274	-	-	-	(234,274)
Depreciation - unallocated	<u>242,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(242,597)</u>
Total governmental activities	<u>\$ 3,604,608</u>	<u>\$ 104,660</u>	<u>\$ 389,649</u>	<u>\$ 15,138</u>	<u>(3,095,161)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					797,719
Levied for Debt Service					352,689
State school aid - unrestricted					1,960,956
Investment and other					<u>53,475</u>
Total general purpose revenues					<u>3,164,839</u>
Change in net assets					69,678
Net assets, beginning of year					<u>1,710,298</u>
Net assets, end of year					<u>\$ 1,779,976</u>

-5- The accompanying notes are an integral part of these financial statements.

# Bear Lake School District

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	<u>Major Fund</u>		<u>Other</u>		<u>Total</u>
	General		Governmental		Governmental
	Fund		Funds		Funds
<b>ASSETS</b>					
Cash and equivalents	\$ 1,068,110	\$	75,511	\$	1,143,621
Due from other governments	411,111		-		411,111
Due from other funds	-		5,279		5,279
Prepaid expenses	<u>5,074</u>		<u>-</u>		<u>5,074</u>
Total assets	<u>\$ 1,484,295</u>	\$	<u>80,790</u>	\$	<u>1,565,085</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 50,440	\$	-	\$	50,440
Salaries payable and related expenses	230,345		2,763		233,108
Due to other funds	5,279		-		5,279
State aid anticipation note payable	500,000		-		500,000
Due to other governments	7,316		3,275		10,591
Deferred revenue	<u>43,271</u>		<u>-</u>		<u>43,271</u>
Total liabilities	<u>836,651</u>		<u>6,038</u>		<u>842,689</u>
<b>FUND BALANCES</b>					
Reserved for Debt Service	-		69,534		69,534
Reserved for Capital projects	-		5,218		5,218
Reserved for prepaid expenses	5,074		-		5,074
Reserved for food service	38,154		-		38,154
Reserved for technology	102,211		-		102,211
Reserved for building and site	34,660		-		34,660
Unreserved	<u>467,545</u>		<u>-</u>		<u>467,545</u>
Total fund balances	<u>647,644</u>		<u>74,752</u>		<u>722,396</u>
Total liabilities and fund balances	<u>\$ 1,484,295</u>	\$	<u>80,790</u>		

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$9,256,950 and the accumulated depreciation is \$3,508,089.

5,748,861

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 4,695,000	
Unamortized refunding costs	(220,542)	
Accrued interest on bonds	34,972	
Capital lease	116,068	
Accumulated leave liability	<u>65,783</u>	<u>(4,691,281)</u>

Total net assets - governmental activities

\$ 1,779,976

The accompanying notes are an integral part of these financial statements.

# Bear Lake School District

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	<u>Major Fund</u>		<u>Other</u>		<u>Total</u>
	<u>General</u>		<u>Governmental</u>		<u>Governmental</u>
	<u>Fund</u>		<u>Funds</u>		<u>Funds</u>
Revenues					
Property taxes	\$ 797,719	\$ 352,689	\$ 1,150,408		
Interest	31,783	3,125	34,908		
State revenues	2,094,892	-	2,094,892		
Federal revenues	117,918	-	117,918		
Other	<u>256,403</u>	<u>19,757</u>	<u>276,160</u>		
Total revenues	<u>3,298,715</u>	<u>375,571</u>	<u>3,674,286</u>		
Expenditures					
Instruction	1,936,425	-	1,936,425		
Supporting Services	977,703	-	977,703		
Community Services	85,989	-	85,989		
Athletics	-	90,931	90,931		
Other	35,399	-	35,399		
Debt Service					
Principal	35,687	190,000	225,687		
Interest	23,798	212,090	235,888		
Other	-	1,009	1,009		
Capital outlay	<u>85,684</u>	<u>26,264</u>	<u>111,948</u>		
Total expenditures	<u>3,180,685</u>	<u>520,294</u>	<u>3,700,979</u>		
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>118,030</u>	<u>(144,723)</u>	<u>(26,693)</u>		
Other financing sources (uses)					
Operating transfers in	-	71,156	71,156		
Operating transfers out	(71,156)	-	(71,156)		
Proceeds from capital lease	<u>71,669</u>	<u>-</u>	<u>71,669</u>		
Total other financing sources (uses)	<u>513</u>	<u>71,156</u>	<u>71,669</u>		
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	118,543	(73,567)	44,976		
Fund balance, beginning of year	<u>529,101</u>	<u>148,319</u>	<u>677,420</u>		
Fund balance, end of year	<u>\$ 647,644</u>	<u>\$ 74,752</u>	<u>\$ 722,396</u>		

The accompanying notes are an integral part of these financial statements.

## Bear Lake School District

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	44,976
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 109,932	
Depreciation expense	<u>(242,597)</u>	(132,665)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts used by \$14,107.	14,107
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Repayment of bond and note principal and capitalized leases are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	225,687
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Some of the capital assets acquired this year were financed with capital lease proceeds. The amount financed by the proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.	(71,669)
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Amortization of deferred refunding costs	(12,372)
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Decrease in accrued interest	<u>1,614</u>
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<b>Changes in Net Assets of Governmental Activities</b>	\$	<u><u>69,678</u></u>
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# **Bear Lake School District**

## **STATEMENT OF FIDUCIARY NET ASSETS**

June 30, 2008

Agency Funds

### **ASSETS**

Cash and cash equivalents

\$ 64,862

### **LIABILITIES**

Due to student groups

\$ 64,862

The accompanying notes are an integral part of these financial statements.



# **Bear Lake School District**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

Bear Lake School District (the "School District") is a Michigan public school district consisting of one K-12 building. The School District primarily serves the Bear Lake community. As of June 30, 2008, the School District employed 23 professional staff and 25 non-professional staff and had 385 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

#### ***Financial Reporting Entity***

Bear Lake School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

#### ***Government-Wide and Fund Financial Statements***

##### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

### *Fund Types and Major Funds*

#### *Activities in Major Funds*

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Other Governmental Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the School District is the Athletics Fund.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

### *Fiduciary Funds*

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### *Cash and Cash Equivalents*

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

### *Capital Assets*

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 4 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	20-50 years
Buses and vehicles	8-15 years
Furniture and equipment	4-15 years

### *Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums*

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

## NOTES TO FINANCIAL STATEMENTS - Continued

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as other financing uses.

### ***Fund Equity***

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

### ***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I and At-Risk Program, which are reported as operating grants and contributions.

### ***Spending Policy***

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

### ***Encumbrance Accounting***

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

### ***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE B - BUDGETARY POLICY AND PRACTICE

#### *Excess of Expenditures over Appropriations in Budgeted Funds*

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Support Services			
Transportation	160,045	220,079	60,034
Other			
Payments to other public schools	-	35,399	35,399
Other financing sources (uses)			
Interfund transfers	66,388	71,156	4,768

### NOTE C - CASH AND INVESTMENTS

At June 30, 2008, the School District's cash and investments included the following:

	<u>Cash and Equivalents</u>
Cash on hand	\$ 200
Bank deposits	341,370
Investments	<u>866,913</u>
	<u><u>\$ 1,208,483</u></u>

#### *Bank Deposits*

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

#### *Custodial Credit Risk - Deposits*

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$45,969 of the School District's bank balance of \$211,620 was exposed to custodial credit risk because it was uninsured and uncollateralized.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Investments*

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2008 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 866,913</u>	<u>\$ 866,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### *Interest Rate Risk*

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity.

### *Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District further limits its investment choices as described above. The School District's investment in the Michigan Liquid Asset Fund ("MILAF") investment pool was rated AAAM by Standard & Poor's.

**NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE**

***Property Taxes Receivable, Deferred Revenue and Property Tax Calendar***

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18.00 per \$1,000 of equalized non-homestead property value of \$43.26 million was levied for general operating purposes. For debt service purposes, \$4.05 per \$1,000 of equalized homestead and non-homestead property value of \$87.04 million was levied for bonded debt repayments by the Debt Service Fund.

***Intergovernmental Receivables and Deferred Revenue***

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

Due from the State of Michigan	
State Aid	\$ 382,327
Due from Federal Grants	7,753
Due from other sources	<u>21,031</u>
	<u>\$ 411,111</u>

Deferred revenue at June 30, 2008 consists of the following:

Deferred Federal revenue passed through	
the State	\$ 32,329
Deferred other local revenue	<u>10,942</u>
	<u>\$ 43,271</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings and improvements	\$ 8,122,979	\$ -	\$ -	\$ 8,122,979
Furniture and equipment	555,842	38,263	-	594,105
Buses and vehicles	<u>446,413</u>	<u>71,669</u>	<u>(38,000)</u>	<u>480,082</u>
Total depreciable assets	9,125,234	109,932	(38,000)	9,197,166
Less accumulated depreciation	(3,303,492)	(242,597)	38,000	(3,508,089)
Land	<u>59,784</u>	<u>-</u>	<u>-</u>	<u>59,784</u>
Total capital assets, net	<u>\$ 5,881,526</u>	<u>\$ (132,665)</u>	<u>\$ -</u>	<u>\$ 5,748,861</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 242,597</u>
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### NOTE F - STATE AID ANTICIPATION NOTE PAYABLE

The State aid anticipation note is secured by future State aid receipts, bears interest at 3.68% and is due August 2008.

### NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 4,885,000	\$ -	\$ (190,000)	\$ 4,695,000	\$ 205,000
Notes payable	27,701	-	(27,701)	-	-
Capital lease	52,385	71,669	(7,986)	116,068	21,793
Unamortized refunding costs	(232,914)	-	12,372	(220,542)	(12,372)
Accumulated leave liability	<u>79,890</u>	<u>-</u>	<u>(14,107)</u>	<u>65,783</u>	<u>-</u>
Long-term debt at June 30, 2008	<u>\$ 4,812,062</u>	<u>\$ 71,669</u>	<u>\$ (227,422)</u>	<u>\$ 4,656,309</u>	<u>\$ 214,421</u>



## NOTES TO FINANCIAL STATEMENTS - Continued

Payments on general obligation bonds are made by the Debt Service Fund. Payments on notes and leases payable are made by the General Fund. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

At June 30, 2008, the School District's long-term debt consisted of the following:

\$4,170,000 2005 School District refunding general obligation bonds for the advance refunding of the School District's 2000 bond issue; due in annual installments of \$25,000 to \$345,000 through May 2026; interest rate of 3.0% to 4.5%.	\$ 4,095,000
\$4,950,000 2000 Serial bonds for building fund purposes; due in annual installments of \$140,000 to \$150,000 through May 2010; interest rate of 5.0%.	290,000
\$400,000 2005 Site & Building Bond for building fund purposes; due in annual installments of \$30,000 to \$45,000 through May 2015; average interest rate of 3.55%.	310,000
Capital lease for a bus with a cost of \$63,273; due in annual installments of \$10,888 to \$37,964 through January 2010; interest rate of 5.54% due annually.	44,399
Capital lease for a bus with a cost of \$71,669; due in annual installments of \$15,873 through May 2013; interest rate of 3.50% due annually.	<u>71,669</u>
Total bonds and capital leases	4,811,068
Accumulated leave liability	65,783
Unamortized refinancing costs	<u>(220,542)</u>
Total long-term debt	<u><u>\$ 4,656,309</u></u>

Total annual requirements to amortize bonds and notes outstanding as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 226,793	\$ 208,671
2010	269,804	198,647
2011	244,317	186,340
2012	244,818	177,788
2013	260,336	169,175
2014-2018	1,200,000	671,663
2019-2023	1,375,000	405,150
2024-2026	<u>990,000</u>	<u>90,293</u>
	<u><u>\$ 4,811,068</u></u>	<u><u>\$ 2,107,727</u></u>

## NOTES TO FINANCIAL STATEMENTS - Continued

Interest expense for the year ended June 30, 2008 was \$234,274 and interest paid was \$235,888.

### ***Accumulated Leave Liability***

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

### ***Prior Year Defeasance of Debt***

On April 4, 2005, the School District issued \$4.17 million in general obligation bonds with interest rates ranging from 3.0% to 4.5% to advance refund \$4.01 million of outstanding 2000 School Building & Site Bonds with an average remaining interest rate of 5.33%. The net proceeds of \$4,107,725 (after payment of \$69,822 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2000 School Building & Site Bonds. The outstanding principal of the defeased bonds, which have been removed from the School District's books, is \$4.01 million at June 30, 2008.

## **NOTE H - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Bear Lake School District. At June 30, 2008, there were no significant unbilled claims or known future claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

#### *Receivables and Payables*

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ -	\$ 5,279
Other Governmental Funds		
Athletics Fund	<u>5,279</u>	<u>-</u>
	<u>\$ 5,279</u>	<u>\$ 5,279</u>

#### *Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Athletics Fund	<u>\$ 71,156</u>	General Fund	<u>\$ 71,156</u>

### NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103, or on the State of Michigan's website at [www.Michigan.gov](http://www.Michigan.gov).

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Funding Policy***

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rate was 17.74% for the period July 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008 of annual covered payroll. The contribution requirements of Plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$262,724, \$286,860 and \$257,167, respectively, which is equal to the required contribution for each year.

### ***Post-Employment Benefits***

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

## **NOTE K - COMMITMENTS AND CONTINGENCIES**

### ***Capital Projects***

The Capital Projects Fund accounts for activity related to partially remodeling School District buildings; and developing and improving sites. For this capital project, the School District has complied with the applicable provisions of Section 1351a for the Revised School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the Capital Projects Fund. The project for which the Site and Building Bonds were issued was considered complete on October 1, 2007 and the cumulative expenditures recognized for the construction period were \$418,369.

### ***Federal and State Grants***

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

### ***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Bear Lake Education Association. The Board of Education and the Bear Lake Education Association have a contract through the year ended June 30, 2008.

## **NOTE L - SUBSEQUENT EVENT**

The School District borrowed \$500,000 subsequent to June 30, 2008. The note, plus interest of 2.301%, will be due August 2009 and is secured by fiscal year 2008-2009 State aid.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# Bear Lake School District

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local and intermediate sources	\$ 871,512	\$ 914,437	\$ 948,362	\$ 42,925	\$ 33,925
State revenues	1,967,190	2,094,662	2,094,892	127,472	230
Federal revenues	122,195	142,406	117,918	20,211	(24,488)
Incoming transfers	<u>142,800</u>	<u>154,233</u>	<u>137,543</u>	<u>11,433</u>	<u>(16,690)</u>
Total revenues	<u>3,103,697</u>	<u>3,305,738</u>	<u>3,298,715</u>	<u>202,041</u>	<u>(7,023)</u>
Expenditures					
Instruction					
Basic programs	1,579,834	1,725,471	1,688,325	(145,637)	37,146
Added needs	<u>284,098</u>	<u>261,310</u>	<u>248,100</u>	<u>22,788</u>	<u>13,210</u>
Total instruction	<u>1,863,932</u>	<u>1,986,781</u>	<u>1,936,425</u>	<u>(122,849)</u>	<u>50,356</u>
Supporting Services					
Pupil support	63,114	38,656	29,624	24,458	9,032
Instructional staff support	164,807	135,256	118,999	29,551	16,257
General administration	101,653	133,580	116,471	(31,927)	17,109
School administration	181,677	209,840	200,746	(28,163)	9,094
Business services	128,589	97,217	83,378	31,372	13,839
Operations and maintenance	311,207	333,481	293,393	(22,274)	40,088
Transportation	161,873	160,045	220,079	1,828	(60,034)
Other central support	<u>5,750</u>	<u>3,650</u>	<u>697</u>	<u>2,100</u>	<u>2,953</u>
Total supporting services	<u>1,118,670</u>	<u>1,111,725</u>	<u>1,063,387</u>	<u>6,945</u>	<u>48,338</u>
Community service	<u>82,839</u>	<u>90,390</u>	<u>85,989</u>	<u>(7,551)</u>	<u>4,401</u>
Other					
Payments to other public schools	-	-	35,399	-	(35,399)
Debt service	<u>91,189</u>	<u>95,948</u>	<u>59,485</u>	<u>(4,759)</u>	<u>36,463</u>
Total expenditures	<u>3,156,630</u>	<u>3,284,844</u>	<u>3,180,685</u>	<u>(128,214)</u>	<u>104,159</u>
REVENUES OVER EXPENDITURES	<u>(52,933)</u>	<u>20,894</u>	<u>118,030</u>	<u>73,827</u>	<u>97,136</u>
Other financing sources (uses)					
Interfund transfers	(63,055)	(66,388)	(71,156)	(3,333)	(4,768)
Proceeds from capital lease	<u>-</u>	<u>-</u>	<u>71,669</u>	<u>-</u>	<u>71,669</u>
Total other financing sources (uses)	<u>(63,055)</u>	<u>(66,388)</u>	<u>513</u>	<u>(3,333)</u>	<u>66,901</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(115,988)	(45,494)	118,543	70,494	164,037
Fund balance, beginning of year	<u>529,101</u>	<u>529,101</u>	<u>529,101</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 413,113</u>	<u>\$ 483,607</u>	<u>\$ 647,644</u>	<u>\$ 70,494</u>	<u>\$ 164,037</u>

## **COMBINING FINANCIAL STATEMENTS**

# Bear Lake School District

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2008

	Special Revenue Funds	Debt Service Funds		
		2000 Bond	2005 Bond	Capital Projects Fund
	Athletics	Service Fund	Service Fund	Total Non-Major Governmental
<b>ASSETS</b>				
Cash and cash equivalents	\$ 759	\$ 53,920	\$ 15,614	\$ 75,511
Due from other funds	<u>5,279</u>	<u>-</u>	<u>-</u>	<u>5,279</u>
Total assets	<u><u>\$ 6,038</u></u>	<u><u>\$ 53,920</u></u>	<u><u>\$ 15,614</u></u>	<u><u>\$ 80,790</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Salaries payable and related expenses	\$ 2,763	\$ -	\$ -	\$ 2,763
Due to other governments	<u>3,275</u>	<u>-</u>	<u>-</u>	<u>3,275</u>
Total liabilities	<u>6,038</u>	<u>-</u>	<u>-</u>	<u>6,038</u>
<b>FUND BALANCES</b>				
Reserved for Debt Service	-	53,920	15,614	69,534
Reserved for Capital Projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,218</u>
Total fund balances	<u>-</u>	<u>53,920</u>	<u>15,614</u>	<u>74,752</u>
Total liabilities and fund balances	<u><u>\$ 6,038</u></u>	<u><u>\$ 53,920</u></u>	<u><u>\$ 15,614</u></u>	<u><u>\$ 80,790</u></u>



# Bear Lake School District

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

		<u>Debt Service Funds</u>		<u>Capital</u>	<u>Total</u>
		2000	2005	Projects	Non-Major
	<u>Athletics</u>	<u>Debt Service Fund</u>	<u>Debt Service Fund</u>	<u>Fund</u>	<u>Governmental</u>
Revenues					
Property taxes	\$ -	\$ 302,436	\$ 50,253	\$ -	\$ 352,689
Interest	18	1,783	365	959	3,125
Other	<u>19,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,757</u>
Total revenues	<u>19,775</u>	<u>304,219</u>	<u>50,618</u>	<u>959</u>	<u>375,571</u>
Expenditures					
Athletics	90,931	-	-	-	90,931
Debt Service					
Principal	-	155,000	35,000	-	190,000
Interest	-	199,712	12,378	-	212,090
Other	-	975	34	-	1,009
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,264</u>	<u>26,264</u>
Total expenditures	<u>90,931</u>	<u>355,687</u>	<u>47,412</u>	<u>26,264</u>	<u>520,294</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(71,156)	(51,468)	3,206	(25,305)	(144,723)
Other financing sources					
Operating transfers in	<u>71,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,156</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	-	(51,468)	3,206	(25,305)	(73,567)
Fund balance, beginning of year	<u>-</u>	<u>105,388</u>	<u>12,408</u>	<u>30,523</u>	<u>148,319</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 53,920</u>	<u>\$ 15,614</u>	<u>\$ 5,218</u>	<u>\$ 74,752</u>



Business and Financial Advisors  
*Our clients' success – our business*

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Heidi M. Wendel, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Bear Lake School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Bear Lake School District*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

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We consider the following deficiency to be a significant deficiency in internal control:

*Preparation of Financial Statements*

The above definition of a significant deficiency includes any condition that adversely affects the School District's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the School District has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. The financial statements prepared by the auditors are then reviewed and approved by the School District.

Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition, be considered a part of the School District's internal control. In this regard, the School District is not unlike many other schools of its size.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

September 26, 2008



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## AUDIT-RELATED COMMUNICATIONS

To the Board of Education  
Bear Lake School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Bear Lake School District (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated September 26, 2008. Professional standards require that we provide you with the following information related to our audit.

### ***Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards***

As stated in our engagement letter dated August 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### ***Compliance***

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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### ***Internal Controls***

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have issued a report describing our findings.

### ***Planned Scope and Timing of the Audit***

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 13, 2008.

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bear Lake School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. None of management's estimates are considered to be particularly sensitive.

### ***No Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatement detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The only entries recorded during the audit were from the management of the School District related to the final reconciliation of various accounts.

***No Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated September 26, 2008.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Bear Lake School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Bear Lake School District and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

*Dennis, Gartland & Niergarth*

September 26, 2008